

March 2, 2004

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

California Energy Commission
1516 Ninth Street
Sacramento, CA 95814

California Power Authority
901 P Street, Suite 142A
Sacramento, CA 95814

Dear Commissioners and Directors:

Pacific Gas and Electric Company appreciates the opportunity to participate in the California Energy Commission, California Public Utilities Commission, and California Power Authority's Energy Action Plan (EAP). PG&E supports the agencies' joint efforts to develop a comprehensive and coordinated set of energy policies for the state,¹ and PG&E believes that the activities underway to address the Plan's six major action items² will contribute mightily toward restoring public confidence in California's energy market place.

In what follows is a brief update on PG&E's recent activities and accomplishments in support of the Energy Action Plan in the three areas of focus for today's meeting.

Goal II. Accelerate the State's Goal for Renewable Resources

PG&E is in full support of the Renewable Portfolio Standard (RPS) goal of having 20 percent renewable power in its resource mix by 2017. PG&E expects to meet the goal several years earlier than the 2017 mandate. Our long-term plan,

¹ The goal of the energy Action Plan is to "ensure that adequate, reliable, and reasonably priced electrical power and natural gas supplies, including prudent reserves, are achieved and provided through policies, strategies, and actions that are cost effective and environmentally sound for California's consumers and ratepayers."

² The six action items are: I. Optimize Energy Conservation and Resource Efficiency; II. Accelerate the State's Goal for Renewable Generation; III. Ensure Reliable, Affordable Electricity Generation; IV. Upgrade and Expand the Electricity Transmission Infrastructure; V. Promote Customer and Utility Owned Distributed Generation; and VI. Ensure Reliable Supply of Reasonably Priced Natural Gas.

filed last year with the CPUC, estimates that PG&E's resource portfolio will contain 15 percent renewables in 2008.

In the last few years, PG&E has been making progress adding renewables to our resource mix. In 2002, renewable resources accounted for 10.4 percent of our resource mix. We forecast that, in 2004, renewable power will make up 12.7 percent of our resource mix, a growth of more than 20 percent. PG&E has achieved this growth despite the fact that the statute does not require the company to meet the RPS goal until it is financially solvent.

PG&E has been working cooperatively with many parties, including developers and the environmental community, to establish standard terms and conditions for renewable procurement. Resolving these issues is key to an orderly expansion of renewable power in California. Achieving creditworthy status is of utmost importance to PG&E, as a more favorable credit rating should provide the utility with more energy procurement options. When PG&E is positioned such that the obligation to procure renewables, pursuant to a 10-year contract, will not impair its creditworthy rating, and assuming that the regulatory guideposts have been established, PG&E will conduct a solicitation for renewable resources. Although several issues remain to be addressed by the CPUC, PG&E hopes all conditions for a renewables solicitation will be met by mid 2004.

In addition, PG&E has played an active role in the multi-state effort, led by the Western Governors Association and the CEC, to develop a renewables tracking system for the western region. The Western Renewable Energy Generation Information System (WREGIS), an ambitious, data-intensive effort, will strengthen the business infrastructure of the renewable generation industry by allowing renewable claims to be substantiated quickly and provide a coordinated, credible platform to verify the quantity of renewable energy generated in the Western Interconnection. One of the top tier goals for WREGIS is to have the ability to serve the regulatory needs of the western states and be responsive to the stakeholder constituents.

Goal IV. Upgrade and Expand the Electricity Transmission and Distribution Infrastructure

As part of its core business as an investor owned utility with vast electric transmission and distribution holdings, PG&E is continually evaluating and upgrading its transmission and distribution facilities to accommodate increasing demands on the system. Several transmission and distribution projects -- planned, underway, or recently completed -- have enhanced the system to add capacity to accommodate increased load growth, to relieve system constraints, or to maintain reliable service for PG&E's 4.8 million electricity customers. PG&E has invested over \$1.1 billion in its transmission system over the past four years

and plans to invest another \$1.8 billion over the next five years. In addition, the company invests approximately \$650 million annually in its electric distribution system to connect new customers, relieve constraints, and improve system reliability.

Major transmission system enhancement projects completed or planned include the Path 15 upgrade, the Los Esteros Substation-Northeast San Jose Project, the Tri-Valley Project, the Jefferson-Martin 230kV Transmission Project, and several transmission line and transformer upgrade projects. PG&E builds the infrastructure necessary to connect about 50,000 new customers to its system every year as well as to accommodate the expansion of existing customer facilities. On an ongoing basis PG&E is replacing substation transformer banks, circuit breakers, capacitors, protection devices, monitoring systems and other equipment to ensure the reliable and safe operation of the electric system.

PG&E participates actively in the California ISO's grid expansion planning process. In addition, PG&E has initiated several longer-term grid assessments that focus on system performance out to 10 years or longer. PG&E's goal is to take a broad, long-term view of the transmission and distribution systems to enable PG&E to coordinate its investments to stay ahead of the planning curve.

Goal V. Promote Customer and Utility Owned Distributed Generation

PG&E has been a leading advocate in California to establish workable solutions to enable customer and utility owned distributed generation. PG&E supported legislative initiatives such as AB 58, which extended the net metering program for solar and wind power up to one MW; AB 2228, which created a net metering pilot program for biogas converters; AB 1214, which extends net metering to fuel cells; and AB 1685, which extends the Self Generation Incentive Program. PG&E has worked diligently to improve its interconnection procedures to bring distributed generation projects on line quickly through its active participation in the CPUC's Rule 21 process and through improvements to its internal procedures. Through the Self Generation Incentive Program, PG&E has interconnected 78 projects and has an additional 258 active projects. The Program is currently over-subscribed. PG&E also has thousands of small net-metered customers.³ Some examples of PG&E's efforts to support distributed generation include assisting the nation's largest photovoltaic installation at a commercial establishment, working with Sonoma State University to reduce its energy use 42 percent through a combination of photovoltaic arrays and energy efficiency, and support for the City of San Francisco's Renewables Initiative with a \$2.1 million rebate for the completion of photovoltaic arrays atop the Moscone Center.

³ Many of the net metering customers also received a rebate from the Self Generation Incentive Program.

These are some of the steps PG&E has taken in partnership with the three agencies and as part of the Energy Action Plan. PG&E will continue to refine its supply- and demand-side options for addressing California's energy markets, while we continue to labor under the many unresolved market structure issues. PG&E looks forward to continued progress as we work with you to clarify the regulatory framework, regain our creditworthy status, and expand our investment in California's infrastructure.

Sincerely,